

**DW 05-053**

**HAMPSTEAD AREA WATER COMPANY, INC.**

**Petition for Approval to Operate Well Inside of Franchise Area, Approval of Financing,  
Approval of Acquisition of Assets and Approval of Permanent Rates**

**Order *Nisi* Granting Approval of Financing**

**ORDER NO. 24,575**

**January 6, 2006**

**I. BACKGROUND**

Hampstead Area Water Company, Inc. is a regulated public utility as defined in RSA 362:2 and 362:4, which currently serves approximately 2,500 customers in several communities throughout southeastern New Hampshire. On March 21, 2005, HAWC filed with the New Hampshire Public Utilities Commission (Commission) a petition requesting authority to: 1) operate a well within HAWC's current franchise area in the Town of Hampstead; 2) acquire the assets of the water system serving a development known as Putnam Place; 3) issue debt in order to finance the acquisition of the water system assets; and 4) charge permanent rates to the customers served by the water system. The petition was accompanied by supporting documentation.

Putnam Place is a residential housing development on Littles Lane in the Town of Hampstead consisting of two, three and four-unit buildings in a cluster development located within HAWC's existing franchise in the Town of Hampstead. It includes 22 units of the Putnam Place development as well as the homestead from the original subdivided parcel of land. Putnam Place is owned by Edgeworth Development, L.L.C. (Edgeworth) and is fully built-out.

Edgeworth requested that HAWC assume ownership and operation of the water system and granted HAWC a Water Rights and Easement Deed, dated November 8, 2002. The filing contains approval letters from the New Hampshire Department of Environmental Services (NH DES) indicating that the system meets pertinent water quality standards. In February 2003, the Putnam Place water system was connected to HAWC's Hampstead Core system and HAWC began billing the Putnam Place customers its Hampstead Core tariff rate of \$7.17 per quarter plus \$1.99 per 100 cubic feet of water consumed.

On October 25, 2004, HAWC and Edgeworth executed a Contract to Purchase Previously Installed Water Utility Assets & Provide Domestic Water Service whereby HAWC agreed to purchase the Putnam Place water system from Edgeworth at a price of \$1,000 per residential unit "hook-up," excluding the original homestead, for a total purchase price of \$22,000. According to the contract, the remaining original cost of construction of the water system over and above the agreed upon purchase price is to be treated as a Contribution in Aid of Construction (CIAC) by HAWC.

On October 25, 2004, HAWC executed a promissory note whereby it promised to pay Edgeworth the sum of \$22,000 plus interest. The terms of the note call for HAWC to pay one-tenth of the total principal on each of the next 10 anniversary dates of the note plus interest at 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the calendar year preceding that particular anniversary date. All outstanding principal and interest are due and payable by the tenth anniversary date of the note. The initial interest rate of the note is 7.50%.

On March 16, 2005, the Commission received correspondence from the Hampstead Board of Selectmen indicating they had received notification of the proposed petition regarding the Putnam Place water system. No subsequent correspondence has been received from the Hampstead Board of Selectmen relative to this docket although we note the pre-filed testimony of Edgeworth indicates the Hampstead Planning Board has approved the project.

On June 10, 2005, HAWC filed revised exhibits: Exhibit 5, Project Cost Schedule; Exhibit 7, Bill of Sale; Exhibit 9, CPR Records; and Exhibit 13, Pre-filed Testimony of John Sullivan.

On January 3, 2006, Staff of the Commission (Staff) filed a letter recommending that the Commission approve HAWC's petition. Staff stated it had thoroughly reviewed the filing and had conducted three rounds of discovery concerning HAWC's petition. In addition, Staff stated the Commission's Audit Staff had reviewed HAWC's Continuing Property Records (CPR's) for the Putnam Place system and had issued a final audit report, dated June 20, 2005, which corroborated the figures used in HAWC's filing.

## **II. COMMISSION ANALYSIS**

In the instant petition, HAWC requests Commission approval of two items which we conclude do not require separate approval: authority to operate a well within HAWC's current franchise and approval of permanent rates charged customers. HAWC previously received franchise approval for this area. See *Hampstead Area Water Company, Inc.* 75 NH PUC 163 (1990) and *Hampstead Area Water Company, Inc.* 76 NH PUC 569 (1991). The franchise right and associated obligation to serve necessarily include operation of wells and other system assets within the franchise. Accordingly, we find additional approval is not necessary.

Secondly, HAWC requests authority to charge rates. HAWC has previously received approval to charge the existing tariff rates. See *Woodland Pond Water Co., Inc.* 73 NH PUC 26 (1988) and *Hampstead Area Water Company, Inc.* Order No. 24,520 (September 22, 2005).

Accordingly, we find separate approval of rates for Putnam Place is not necessary. We now address the remaining issues concerning the proposed purchase of the Putnam Place water system assets for \$22,000 and the associated financing arrangements.

Pursuant to the provisions of RSA 369:1, public utilities engaged in business in this State may issue evidences of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be “consistent with the public good.” RSA 369:1 also provides that “[s]uch approval shall extend to the amount of the issue authorized and the purpose or purposes to which the securities or the proceeds thereof are to be applied ...” The New Hampshire Supreme Court has further provided that the public good consideration involves looking beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205 (1984).

HAWC proposes to use the proceeds of the financing to purchase the Putnam Place water system assets from Edgeworth. According to the revised Bill of Sale filed by HAWC, the assets include wells, pumping and treatment equipment, tanks, mains, and other appropriate structures. Pursuant to the petition, the purchase price is determined by multiplying the number of residential units, 22, by \$1,000 per service connection within the Putnam Place development, or \$22,000. HAWC proposes to finance this \$22,000 amount. We find that the proposed purchase price is reasonable, especially in light of the fact that the original construction

cost for these assets is \$161,614. The difference between the original cost of construction and the proposed purchase price, \$135,214, is being recorded by HAWC as CIAC and thus will not be included in rate base for the determination of future rates. This methodology of determining the purchase price and treatment of CIAC is consistent with our Order No. 24,362, (August 19, 2003) wherein we approved this methodology as being consistent with the public good. For the foregoing reasons, we find the use of the proposed funds consistent with the public good.

We next review the reasonableness of the proposed financing rate and its impact upon ratepayers. According to the proposed terms of the note payable, HAWC will pay Edgeworth, annually, one-tenth of the total principal (\$2,200) over the 10 anniversary dates of the note, plus interest at 2.25% above the Prime Rate published in the Wall Street Journal on the last business day of the calendar year preceding that particular anniversary date. The initial interest rate of the note is 7.50%. We have previously approved this same interest rate and margin for HAWC for their acquisition and financing of Eastwood Place. See, *Hampstead Area Water Company, Inc.*, Order No. 24,560 (December 9, 2005). In that order, we noted that we had approved interest rates for small water companies where the margin had ranged from 1.5 to 2.75% over the applicable index. *Id.* The instant 2.25% margin falls within the range small water companies are able to obtain financing and we believe that the interest rate will not have an adverse impact on future customer rates. Based on our review of the record and discussion above, we find the terms and conditions of the \$22,000 loan reasonable and consistent with the public good. Accordingly, we approve the proposed financing.

**Based upon the foregoing, it is hereby**

**ORDERED *NISI***, that subject to the effective date below, Hampstead Area Water Company, Inc.'s request to purchase of the Putnam Place water system assets from Edgeworth Development, L.L.C. and finance the \$22,000 purchase price under the terms and conditions stated in Hampstead Area Water Company, Inc.'s petition, is approved; and it is

**FURTHER ORDERED**, that Hampstead Area Water Company, Inc. shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than January 16, 2006 and to be documented by affidavit filed with this office on or before February 6, 2006; and it is

**FURTHER ORDERED**, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than January 23, 2006 for the Commission's consideration; and it is

**FURTHER ORDERED**, that any party interested in responding to such comments or request for hearing shall do so no later than January 30, 2006; and it is

**FURTHER ORDERED**, that this Order *Nisi* shall be effective February 6, 2006, unless Hampstead Area Water Company, Inc. fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this sixth day of  
January, 2006.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary